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RUEHNE/AMEMBASSY NEW DELHI 0505  
RUEHOT/AMEMBASSY OTTAWA 0731  
RUEHFR/AMEMBASSY PARIS 1479  
RUCPDC/DEPT OF COMMERCE WASHDC  
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UNCLAS SECTION 01 OF 03 PRETORIA 002654

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DEPT FOR AF/S, EEB/ESC AND CBA  
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SUBJECT: ESKOM POSTPONES NEW NUCLEAR BUILD PLANS

REF: A. PRETORIA 2612  
[1](#)B. PRETORIA 2401 AND PREVIOUS

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Summary  
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[1](#)1. (SBU) Eskom announced its decision to postpone the development of a second nuclear power plant. The local press reports that a fleet of nuclear power stations, rather than a single one, will probably be built in partnership with suppliers, bringing down the total unit cost. A task team will develop a nuclear energy strategy and work with state power company Eskom to procure a nuclear technology partner to support the build and associated industrialization processes over the next 18 months. Westinghouse will convey more about the government's plans for a nuclear program after a meeting with the Minister of Public Enterprises in the U.S. on December 11. End Summary.

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Nuclear Competition Ended for Financial Reasons  
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[1](#)2. (U) State power utility Eskom announced on December 5 its decision not to proceed with procurement of a second nuclear power station because of its inability to secure adequate financing, given the worldwide financial crisis, and because of the slowdown in the domestic economy, according to multiple press sources. Eskom had been expected to make a decision -- perhaps by the end of the year -- between three 1,140 MW reactors from Westinghouse or two 1,650 MW reactors proposed by Areva of France (Reftel B). Eskom spokesperson Fani Zulu said the cost of the proposed nuclear power station was confidential, but its cost was not part of the USD 33.6 billion Eskom has estimated it will spend through 2013 increasing generating capacity to alleviate power shortages. Eskom had previously announced plans double its capacity to 80,000 MW by 2026, of which 20,000 MW, or half of the increase, was to be nuclear. South Africa's only existing nuclear power plant is a 1,800 MW double reactor constructed by Areva at Koeberg, near Cape Town.

[1](#)3. (U) Westinghouse issued a press release on December 5 announcing that it had been advised that Eskom had decided

not to proceed with the proposed investment in the nuclear power project. According to the statement, Regional Vice President Rita Bowser said, "Westinghouse remains committed to Eskom and South Africa. We believe the AP1000 is ideal for South Africa as it combines proven power generation systems and components with advanced, passive systems. We will nevertheless continue our current nuclear business in South Africa that includes our work at Koeberg and our support for the development of the Pebble Bed Modular Reactor technology."

¶4. (SBU) Bowser told Economic Counselor on December 5 that South Africa was still interested in a nuclear program and that the company would know more about the South African government's (SAG) intentions after a meeting that was requested by Minister of Public Enterprises Brigitte Mabandla (Reftel A) and that will take place in the U.S. on December 11. She promised to provide a read-out of that meeting after she returns to South Africa on December 15.  
Qshe returns to South Africa on December 15.

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Eskom Decision Is Not One of the Worst Possible Outcomes  
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¶5. (SBU) Bowser added that the Eskom decision was not one of the two worst possible outcomes for Westinghouse, which would have been to make the award to Areva or to cancel the development of a second nuclear power plant indefinitely. An award to Areva, in addition to the fact that South Africa's only existing reactor was built by Areva, would have closed the South African nuclear reactor market to Westinghouse, at

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least for the foreseeable future. Nor was the Eskom decision the best possible outcome, which would have been to make the award to Westinghouse. Westinghouse now waits to see which of remaining two outcomes will be chosen. The best of these would be for the Eskom to say that that it had chosen Westinghouse technology, but would have to build the second nuclear power plant at a later date. The next best outcome would be for Eskom to reopen the competition for Westinghouse and Areva, and possibly other less-qualified suppliers like South Korea and Russia, to build the same reactors at a later date. This later option would require Westinghouse to commit more resources (in addition to the estimated USD 10 million already invested) to the bidding process without any assurance that there would be contract at the end of what will now be a much longer process.

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A Nuclear Technology Partner to Be Chosen Over Next 18 Months  
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¶6. (U) The "Weekender" newspaper reported on December 6 that, according to SAG officials, a fleet of nuclear power stations, rather than a single one, will probably be built in partnership with suppliers, bringing down the total unit cost. The same article added that Department of Minerals and Energy (DME) Director General Neli Magubane and DME Head of Nuclear Technology Tseliso Maqubela will head a task team that will develop a nuclear energy strategy and work with Eskom to implement a framework for procuring a nuclear technology partner to support the build and associated industrialization processes over the next 18 months. This may involve the establishment of joint ventures of the creation of a special-purpose vehicle. Maqubela is also quoted as saying that that Eskom will search for a nuclear technology partner instead of engaging in a renewed bidding process, although, "How we will conduct that search...it is too early to say. It is a strategy used in a number of other countries." Maqubela said the chosen partner's willingness to locate some of its manufacturing in South Africa would count in its favor, since the construction of industrial capacity to support the generation of nuclear energy would help to reduce its costs over time. He also confirmed that

the SAG would stick with its preference for pressurized water reactors (the type that is produced by Westinghouse and Areva). Maqubela also said that a legislative framework dealing with nuclear safety and the disposal of nuclear waste would be created in the next 18 months.

17. (U) Department of Public Enterprises (DPE) Director General Portia Molefe was quoted in the same article as saying that cost is the biggest reason for not proceeding with the nuclear power station at this time. According to her, the project is "not affordable" as Eskom is also involved in other multibillion-rand energy projects. Molefe added that, "We must be vigilant to ensure that Eskom does not overextend its balance sheet, and that our ability to provide the economy with competitively priced energy is not jeopardized." She continued that strategic partnerships with suppliers have become the prevailing method of building nuclear power plants globally. She said the SAG would adopt this trend, which is also favored by suppliers. Molefe also indicated a change of focus for the Westinghouse-supported Pebble Bed Modular Reactor program. Instead of electricity generation, the emphasis will be on producing process heat for industrial applications. The program will be accelerated, according to Molefe. (Comment: The most likely users of process heat would be the SASOL coal-to-liquids plant in Sasolberg in Free State province and the proposed PetraSA refinery in Eastern Cape province. There are also a number of aluminum and ferroalloy smelters that could be potential users. End Comment)

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Comment  
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18. (SBU) The Eskom announcement is disappointing from both the Westinghouse and South African energy mix diversification perspectives, but it is too early to know what the final outcome will be. Eskom's expressed desire to increase local content works to Westinghouse's advantage, since the company specializes in technology transfer and does not manufacture major components in the U.S. But Eskom's search for a strategic partner could also play into the hands of state-owned French nuclear power company Areva. A decision to go with Areva would not be without its price; Westinghouse is unlikely to retain its 15-percent interest in the Pebble Bed Modular Reactor program if Eskom establishes a strategic partnership with its arch-competitor. The Embassy should have a better idea of what all this means after Bowser returns to South Africa on December 15.  
BOST